

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local Procurement Obligations

R.11-10-023
(Filed October 20, 2011)

**REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY
(U 39 E) ON THE PROPOSED DECISION**

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Pursuant to Rule 14.3 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) provides these reply comments on the May 27, 2014, *Proposed Decision of ALJ Gamson Adopting Local Procurement and Flexible Capacity Obligations for 2015, and Further Refining the Resource Adequacy Program* (PD).

I. THE COMMISSION SHOULD NOT USE THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR'S PROPOSED METHOD FOR ALLOCATING FLEXIBLE RESOURCE ADEQUACY REQUIREMENTS AT THIS TIME, ESPECIALLY SINCE IT HAS NOT YET BEEN APPROVED

In its comments, the California Wind Energy Association (CalWEA) proposes that the Commission adopt the allocation methodology that the California Independent System Operator (CAISO) is proposing in its Flexible Resource Adequacy Criteria and Must Offer Obligation initiative to allocate flexible resource adequacy (RA) requirements to the local regulatory authorities with jurisdictional load serving entities (LSEs) in the CAISO. (CalWEA Comments, p. 2.) Calpine Corporation (Calpine) makes this recommendation, as well. (Calpine Comments, pp. 3-4.) The Commission should reject this proposal. It is premature to adopt the allocation method that the CAISO is currently proposing, when the CAISO has not even presented it to the Federal Energy Regulatory Commission (FERC) for approval. It is possible that entities will challenge the CAISO proposal, and that FERC might require the CAISO to modify it. The Commission should adopt the approach outlined in the PD; use load-ratio share to allocate the flexible RA requirements it adopts among its jurisdictional LSEs, and revisit the issue again next year. (PD, pp. 19-20.) At that point, there should be clarity on what allocation approach for flexible RA is included in the CAISO tariff for comparison with alternative methods to be considered.

II. IT IS PREMATURE FOR THE COMMISSION TO ADOPT SPECIAL ALLOCATION RULES FOR POSSIBLE CAISO BACKSTOP PROCUREMENT OF FLEXIBLE RESOURCES CAUSED BY THE CURRENT DIVERGENCE BETWEEN COMMISSION AND CAISO COUNTING RULES FOR FLEXIBLE RA CAPACITY

In its comments, San Diego Gas & Electric Company (SDG&E) proposes that any costs that the CAISO incurs to "backstop" flexible RA in 2015, due to the differences that remain between the counting rules the CAISO indicates that it will use to determine the effective flexible capacity (EFC) as compared to the counting rules that the Commission proposes in the PD, be allocated to LSEs who "create the resulting costs." (SDG&E Comments, p. 4.) The Commission should reject this proposed modification to the PD. The issue SDG&E raises highlights why PG&E, as well as many other parties to the proceeding including SDG&E, continue to urge the Commission and the CAISO to align their

flexible RA rules. But at this point, before the CAISO has even presented its proposed flexible RA tariff provisions to FERC for approval, it is premature for the Commission to adopt the special allocation rule SDG&E recommends. Adoption of such a rule would, in effect, give the CAISO's proposed counting rules precedence over the Commission's proposed counting rules. As discussed in comments on the PD, PG&E recommends that the Commission take a stance in the other direction, to modify the PD to make clear the Commission's expectation that the CAISO will defer to the Commission with respect to the adoption of flexible RA counting rules for Commission-jurisdictional LSEs, as is done currently for local and system RA. (PG&E Comments, pp. 2-4.)

III. THE COMMISSION SHOULD REQUEST THE CAISO TO PUBLISH AN ANNUAL DRAFT EFC LIST IN COORDINATION WITH ITS ANNUAL DRAFT NET QUALIFYING CAPACITY LIST

In its comments, the CAISO requests that the PD be modified to indicate that the CAISO will provide its list of EFC values in September of each year. (CAISO Comments, p. 4.) The PD states that, consistent with the current approach for the net qualifying capacity (NQC) list preparation, the CAISO issue a draft EFC list in May, and that the CAISO and the Commission will issue the final EFC list for Commission-jurisdictional LSEs by September. (PD, Appendix A, p. A-5.)

The CAISO request for modification appears to be that the PD drop its reference to the preparation of the draft EFC list by the CAISO. However, timely access to the draft EFC list is a key component of the utility's procurement process. Therefore, the draft EFC list should be retained. The PD should not be modified. If the CAISO and Energy Division determine that there should be some lag between the CAISO's production of the draft NQC list and the CAISO's production of the draft EFC list, then a proposed schedule should be presented in an upcoming RA proceeding. But the draft EFC list is too important, from a procurement process perspective, to be eliminated altogether.

IV. THE EFC OF ALL SUPPLY-SIDE DEMAND RESPONSE RESOURCES SHOULD BE DETERMINED USING THE SAME METHODOLOGY

EnerNOC, Inc. (EnerNOC) proposes that the PD be revised to exclude the application of the load impact protocols for the purpose of determining the EFC of supply-side demand response resources until after the Energy Division has conducted public workshops on the matter. (EnerNOC Comments, p. 4.) As indicated in comments, PG&E agrees that there is a need to refine the PD's proposed process and counting criteria for supply-side demand response. (PG&E Comments, pp. 4-6.) However, PG&E recommends against suspension of development of any EFC value at all for supply-side demand response programs for 2015, if that is what EnerNOC is recommending. In any event, the same

counting rules for supply-side demand response should apply to all such resources being offered into the CAISO markets. Further, the counting rules used for supply-side demand response and retail demand response programs should not differ.

V. THE COMMISSION SHOULD NOT ADOPT THE FLEXIBLE RA REPORTING REQUIREMENTS PROPOSED BY THE CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES

The Center for Energy Efficiency and Renewable Technologies (CEERT) proposes that the PD be modified to place additional flexible RA reporting requirements on the IOUs and the Energy Division. (CEERT Comments, pp. 1-3, Appendix A, pp. 1-2.) CEERT’s proposal should not be adopted. There has been no discussion in the proceeding of whether CEERT’s proposed reporting requirements are workable. In fact, this is the first time that CEERT has made such a proposal. The requirement to provide “a qualitative assessment of the depth of the supply curve” (CEERT Comments, Appendix A, p. 2) is not very precise, and it is not necessarily straightforward to separate out the costs associated with flexible RA from those the Commission-jurisdictional LSEs might incur to meet other procurement obligations.

The Energy Division currently gathers data on the RA program, and publishes periodic reports.^{1/} PG&E anticipates that the Energy Division will use its judgment to determine how to incorporate flexible RA into its RA reports once the Commission adopts a flexible RA framework. No additional reporting requirements should be added to the PD.

VI. SUPPLY-SIDE DEMAND RESPONSE RESOURCES SHOULD NOT BE OBLIGATED TO BOTH (1) FIT WITHIN A SUB-LAP OR CUSTOM LAP, AND (2) FIT WITHIN A LOCAL CAPACITY AREA

PG&E is raising this issue in its reply comments, rather than earlier, because PG&E has just identified this apparent substantive change to supply-side demand response counting rules. PG&E requests clarification of the requirements for demand response resources to provide local RA. Page B-4 of Appendix B of the PD states, “[t]o be eligible for Local RA, storage and DR assets must be located within a single Sub-LAP or Customer LAP *and* within a single Local Capacity Area.” (Emphasis in original.) PG&E interprets this to potentially mean that demand response resources dispatched at the sub-LAP level in cases where there is cross-over with other local capacity areas (LCAs) would not be eligible for local RA. This is a different eligibility criterion than what currently applies for proxy

^{1/} For example, the Energy Division released its 2012 RA report in April 2014. The Energy Division’s annual RA reports for 2006-2012 are located at: <http://www.cpuc.ca.gov/PUC/energy/Procurement/RA/>.

demand resource (PDR) and reliability demand response product (RDRP) resources. The issue of supply-side demand response located in a sub-LAP that crosses over into LCAs was specifically addressed in D.11-10-003, which states:

Some subLAPs are within a single LCA, some overlap with two or more LCAs, some are partially or completely outside of LCAs. We clarify that PDR and RDRP resources that are dispatchable by subLAP may qualify for local RA, only if these resources or portions of these resources are located within the LCAs. (D.11-10-003, p. 10.)

The decision clarifies that each supply-side demand response resource partially located within an LCA is eligible to receive local RA credit for the portion of the resource located within the LCA. (D.11-10-003, p. 10.) Therefore, PG&E recommends that the sentence quoted above from Appendix B of the PD be revised to state, “Consistent with D.11-10-003, the Local RA value of storage and DR resources that are located within a single sub-LAP or Custom LAP, while also at least partially located within a LCA, is determined by the load impacts of the portion of the resource located within the LCA.”

VII. THE COMMISSION SHOULD NOT ADOPT ALL OF THE RECOMMENDATIONS OF THE COMBINED HEAT AND POWER PARTIES

The PD adopts the Energy Division’s revised proposal to include combined heat and power (CHP) resources procured outside of a utility’s service area in the “Path 26” netting process to determine the extent to which the procuring utility can count the CHP resources’ RA value. The Commission applies the same approach for “cost allocation mechanism” (CAM) resources. (PD, pp. 41-43.) The PD also adopts refined treatment for scheduled outage replacement for CAM and CHP resources that provide RA. (PD, pp. 47-50.) PG&E supports these refinements to the RA program, and in particular appreciates the greater flexibility that the Path 26 rules provide for the procurement of CHP resources. The Energy Producers and Users Coalition, the Cogeneration Association of California, and the California Cogeneration Council (collectively, the “CHP Parties”) propose additional modifications to the PD. As discussed below, these additional proposed modifications should not be adopted.

A. No Special Netting Rules Should Be Adopted for Path 26 With Respect To Combined Heat And Power Resources

The CHP Parties propose that the Path 26 rules be modified so that additional space is reserved on Path 26 specifically for CHP resources, and so that certain CHP resources are “grandfathered” in their ability to use Path 26 for RA purposes. (CHP Parties Comments, pp. 3-5.) While PG&E supports the PD’s determination to include CHP resources in the Path 26 netting process, there is no basis for reserving a portion of Path 26 specifically for CHP resources, to the exclusion of all other resources that

